



ACCOUNTING FOR PENSIONS – SOME RECENT DEVELOPMENTS IN THE AREA OF NATIONAL ACCOUNTS

Peter van de Ven
Head of National Accounts, OECD

*IMF Government Finance Statistics Advisory
Committee (GFSAC)
Washington DC, 14 – 16 March 2017*



Contents

- Recording of pension entitlements
- Measurement and recording of property income in case of liabilities between a pension fund and a pension manager
- Main outcomes of the Eurostat/ILO/IMF/OECD Workshop on Pensions (Paris, 9 – 11 March 2016)



Recording of pension entitlements





Current guidance according to SNA 2008 (and GFSM 2014)

Obligations under employment-related pension schemes have to be recorded in the core accounts (§ 9.20, 11.107 and 17.121)

Obligations under social security pension schemes are not recognised in the core accounts, but only in the supplementary table (§ 9.20 and 17.124)



Ambiguity in current guidelines

Intertwined schemes??

Employment-
related schemes

Social security
schemes

All in core-accounts

Only in supplementary table



Current guidance according to SNA 2008 (and GFSM 2014)

SNA 2008 allows for flexibility in the case of intertwined schemes:

§ 17.193: [...] *only some of these pension entitlements may be recorded within the main sequence of accounts. [...] a further table is to be presented that provides information disclosing the proportion of pension provision covered in the core accounts with some approximate estimates for the remaining schemes. [...]*

Criteria are needed “*to explain the distinction between those schemes carried forward to the core accounts and those recorded only in the supplementary table*”.

ESA 2010 does not provide the same flexibility. It states that all unfunded defined benefit schemes sponsored by government should only be recorded in the supplementary table



Other challenges arising from the current guidance

Indecisive use use of wording:

- **Employment-related** versus **social security**
- **Private** versus **public**
- **Funded** versus **unfunded**

Three ways of categorising pension schemes lead to increased risk of different interpretations

⇒ **Clear criteria are needed to distinguish between schemes**



Possible criteria

Focus on

either

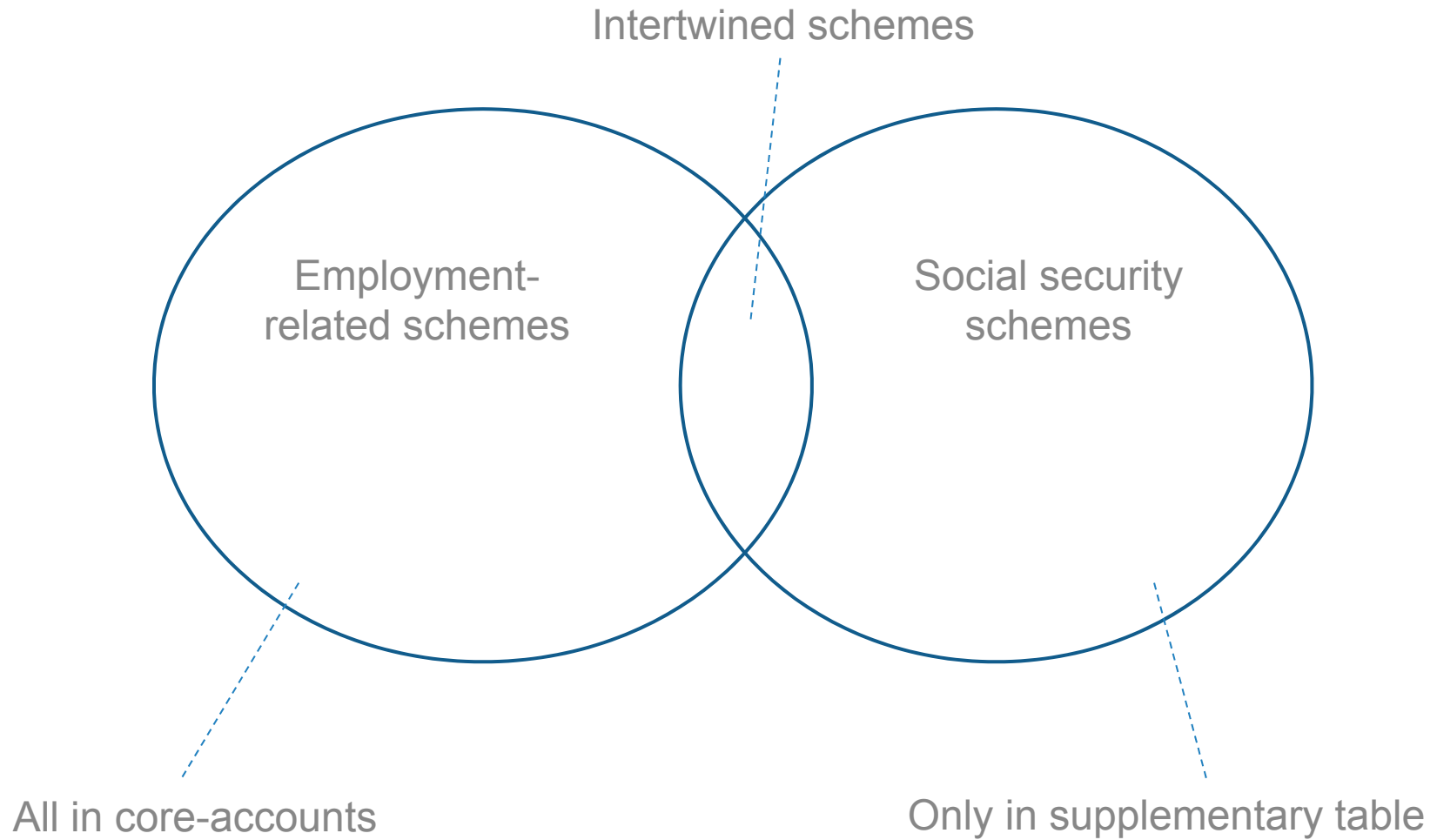
Distinction between social security and employment-related

or

Applying the asset boundary of the SNA



Focusing on distinction between social security and employment-related





Focusing on distinction between social security and employment-related

Social security schemes cover the entire community, or large sections of the community, are imposed and controlled and financed by government units (§ 8.7)

Employment-related schemes derive from an employer-employee relationship [...] that is part of the conditions of employment (§ 8.7)

Sufficiently distinctive??

Only derived check

Possible criteria for distinction social security and employment-related schemes:

- 1. The control and finance of the system**
- 2. The coverage of the system**
- 3. The emergence of the scheme (legal nature)**



Focusing on the asset boundary

Direct check: Look whether entitlements qualify as an asset according to the asset boundary of the 2008 SNA, regardless whether it's social security or employment-related

§ 1.46: Balance sheets record the value of the assets that institutional units own or the liabilities they have incurred

§ 3.33: The most common circumstance in which a liability is established is a **legally binding contract**

§ 3.34: In addition, a liability may be established by a long and well-recognised custom that is not easily refuted. Such liabilities are called **constructive liabilities**



Focusing on the asset boundary

Therefore, all pension entitlements that derive from a legally binding contract are covered by the asset boundary ...

... but how to check whether other entitlements should be regarded as ‘constructive liabilities’?

Criteria mentioned in the 2008 SNA:

- Established by **long and well-recognized custom that is not easily refuted**
- The creditor has a **valid expectation of payment**, despite the lack of a legally binding contract



Defining ‘constructive liabilities’

More guidance in IPSAS:

- “The Conceptual Framework”:

*Whenever an entity has **no realistic alternative to avoid settling an obligation arising from past practice, published policies, or a sufficiently specific current statement, this will give rise to a non-legally obligation***

Factors that are relevant are “*the nature of the past event(s)*” and “*the ability to modify or change the obligation before it crystallizes*”

- Recent “IPSAS Consultation Paper on Social Benefits”:
further discussion on how to determine what ‘past events’ may give rise to a present obligation



Which approach is preferable?

- Following the **basic rules of the SNA**, it would be best to **use the asset boundary** to decide which entitlements to record in the core accounts, but ...
- ... in that case, more guidance will be needed on the correct **interpretation of 'constructive liabilities'**
- Regarding the latter, one should be aware that this may also **affect the recording of social security schemes**, depending on what constitutes the 'past event' and on the application of the accrual principle



Discussion at the pension workshop

- Reluctance to adopt the ‘asset boundary’ approach because of possible impact on social security schemes:
 - *“If this approach will affect government debt, we are opposed”*
 - *“The SNA states that no entitlements should be recognized for social security schemes. This more detailed rule should overrule the more general asset boundary”*
 - *“There are many examples of governments changing the benefit formula, so there is no real claim”*



Discussion at the pension workshop

- On the other hand:
 - The *entitlements have an economic value* (therefore also recognised in IPSAS)
 - It is not only a possible liability for governments, but also a very important *asset for households* with regard to their retirement
 - Don't we want to show the *impact of policy changes on the entitlements* (as we do for changes to the benefit formula for employment-related schemes)?
 - The constructive *liabilities need not necessarily feed into government debt* – these discussions should not be mixed!
 - With regard to impact on other social security schemes: a constructive obligation would only arise where an entitlement accrues (see IPSAS CP on Social benefits)



Conclusions at the AEG

Conclusions by the Advisory Expert Group (AEG) on National Accounts (Paris, 13 – 15 April 2016):

- The AEG agreed that there are **valid arguments for using the asset boundary** to determine when entitlements should be recognized and recorded in the central framework
- The AEG also agreed that **further guidance is needed on the application of the asset boundary** to implement this approach in the longer run

No decision yet, further elaborations needed



Measurement and recording of property income in case of liabilities between a pension fund and a pension manager





The issue

When a pension manager is responsible for any shortfall of a (defined benefit) pension fund, this shortfall should be recorded as a claim of the fund on the manager (and vice versa)

However, a shortfall will also lead to lower property income for the pension fund. As a consequence, property income may fall short of the income payable on pension entitlements which is linked to the unwinding of the discount rate

Therefore, it was agreed by the AEG to explicitly accrue property income on the claim between the pension fund and the pension manager



Two basic questions


To record this property income flow, two basic questions need to be answered:

- **How to classify the imputed property income on the claim?**
 - Investment income payable on pension entitlements
 - Interest
- **How to calculate the imputed property income on the claim?**
 - Equal to the shortfall in property income
 - On the basis of the existing claim (multiplied by the discount rate)

A discussion paper addressing both questions has been drafted for consultation of the AEG (ongoing)



**Main outcomes of the
Eurostat/ILO/IMF/OECD Workshop on
Pensions (Paris, 9 – 11 March 2016)**





Main issues

- Pension workshop held in Paris on March 9-11, 2016
- Organised by Eurostat, ILO, IMF and OECD
- Participants from statistical and actuarial world
- Various issues discussed:
 - User demands with regard to pensions
 - Models used to estimate pension entitlements
 - Actuarial guidelines and IPSAS
 - Recording of pensions according to statistical standards
 - Various country experiences in estimating transactions and positions related to pensions



Main conclusions

- National accounts face **increasing user demands**, related to ageing society and sustainability of pension schemes
- **Supplementary table will help in providing additional data** on pension entitlements
- However, **ambiguity remains** on what to record in central framework and what only in the supplementary table
- Considerable **overlap of issues between SNA, GFSM and IPSAS**, but sometimes similar terminology with different meanings
- Varying schemes, data sources and assumptions across countries hamper international comparability of pension data
- Consistency is a common challenge in compiling data and reporting on multiple pension schemes
- **Need for greater cooperation across all domains in developing concepts, methodology, and best ways to communicate results**



Thank you for your attention